LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7177 **NOTE PREPARED:** Jan 2, 2005
BILL NUMBER: SB 283 **BILL AMENDED:**

SUBJECT: Transferability of Community Revitalization Credit.

FIRST AUTHOR: Sen. Long **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill allows a taxpayer to assign, sell, convey, or otherwise transfer a tax credit received for investment in a Community Revitalization Enhancement District to another taxpayer. (Current law permits assignments to certain lessees of property located in the district.)

Effective Date: January 1, 2006.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses as a result of allowing taxpayers to transfer the Community Revitalization Tax Credit. Presumably, the DOR would have to establish some type of a reporting system for tax credit transfers. The DOR also may have to revise tax forms, instructions, and computer programs for purposes of tax credit transfers. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax liabilities of individual and corporate taxpayers that obtain unused Community Revitalization Tax Credits from other taxpayers. Data is unavailable indicating the amount of outstanding Community Revitalization Tax Credits that are not used from year to year. Assuming unused credit amounts would eventually be utilized, this change has no long-run fiscal impact. Rather, the change likely provides for more timely use of credits obtained by taxpayers whose tax liabilities are not sufficient to exhaust the credits in one year. As a result, the bill could potentially lead to a short-term increase in the use of the Community Revitalization Tax Credits beginning in FY 2006 and FY 2007.

Background: Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to the Community Revitalization Tax Credit. The tax credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce. The tax credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax. The tax credit is nonrefundable and may not be carried back. However, unused tax credits may be carried forward to subsequent tax years. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Since the bill is effective beginning in tax year 2006, the fiscal impact could potentially begin in FY 2006 if taxpayers adjust their quarterly estimated payments.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill may affect revenue from CAGIT, COIT, and CEDIT in the short term as Community Revitalization Tax Credits that would not have been claimed are utilized by taxpayers who have purchased the credits (see *Explanation of State Revenues*).

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources:

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